

MANNING MUNICIPAL GAS DEPARTMENT

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

## MANNING MUNICIPAL GAS DEPARTMENT

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MANNING MUNICIPAL GAS DEPARTMENT  
MANNING, IOWA

OFFICIALS

DECEMBER 31, 2006

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Ron Soll	Chairman	June, 2008
Bob Ehlers	Secretary	June, 2007
Dixon Cole	Trustee	June, 2010
Keith Kelderman	Trustee	June, 2011
Allen Rix	Trustee	June, 2012
Kenneth Spies	Manager	

# ***HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.***

## **Certified Public Accountants**

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### **INDEPENDENT AUDITORS' REPORT**

April 9, 2007

To the Board of Trustees  
Manning Municipal Gas Department  
Manning, Iowa 51455

We have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Gas Department (a municipal utility) as of and for the years ended December 31, 2006, and 2005. These financial statements are the responsibility of the Manning Municipal Gas Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statements of Manning Municipal Gas Department are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Gas Department.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Manning Municipal Gas Department as of December 31, 2006, and 2005, and the respective changes in financial position and cash flows for the years ended December 31, 2006, and 2005 in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2007, on our consideration of the Gas Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 6 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Gas Department's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Heithoff, Hansen, Muhlbauer & Co., P.C.*

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.  
Certified Public Accountants



## *Manning Municipal Gas*

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*Manning, Iowa 51455*

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Manning Municipal Gas Department provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

#### **2006 FINANCIAL HIGHLIGHTS**

- Operating revenues of the Utility's activities decreased .62%, or \$7,325, from December 31, 2005 to 2006.
- Operating expenses decreased 2.27%, or \$27,643 from December 31, 2005 to December 31, 2006.
- The Utility's net assets of business type activities increased 2.36%, or \$70,770 from December 31, 2005 to December 31, 2006.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of a Balance Sheet and a Statement of Revenues, Expenses, and Changes in Fund Net Assets and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Supplementary Information provides a listing of the Utility's investments.

## **REPORTING THE UTILITY'S FINANCIAL ACTIVITIES**

### Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information, which helps answer, this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utility's assets and liabilities with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Utility's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the following activity:

- Business type activity for the Gas Utility. This activity is financed primarily by user charges.

### Fund Financial Statements

The Utility has one fund:

The Proprietary fund accounts for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds report all activities in the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Since there is only one fund, this is obviously the only major fund as well. The Utility is responsible for ensuring the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong.

The required financial statements for proprietary funds include a balance sheet, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

## BASIC FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for this business type activity.

Net Assets		
December 31, 2006		
<b><u>Business Type Activity – Enterprise Fund</u></b>		
	Year Ended	
	12-31-06	12-31-05
Current and other assets	\$2,618,703	\$ 2,640,498
Capital assets	671,733	705,581
Total Assets	<u>\$3,290,436</u>	<u>\$ 3,346,079</u>
Current liabilities	\$ 216,976	\$ 343,389
Non-current liabilities	-0-	-0-
Total Liabilities	<u>\$ 216,976</u>	<u>\$ 343,389</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 671,733	\$ 705,581
Restricted	404,325	405,650
Unrestricted	<u>1,997,402</u>	<u>1,891,459</u>
Total net assets	<u>\$3,073,460</u>	<u>\$ 3,002,690</u>

Net assets of business type activities increased from 2005 by \$70,770, or 2.36%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased by \$105,943 at the end of this year, an increase of 5.60%. This is the largest portion of the net assets. The second largest portion of the Utility's net assets is the invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.



## Changes in Net Assets

### Business Type Activity Enterprise Fund – Gas Fund

	<u>Year Ended</u>	
	<u>12-31-06</u>	<u>12-31-05</u>
Revenues:		
Charges for services	\$1,180,853	\$1,188,178
Interest Income	95,225	68,699
Misc. income	2,720	22,461
Total revenues	<u>\$1,278,798</u>	<u>\$1,279,338</u>
Operating expenses:		
Purchased gas	\$ 834,474	\$ 866,512
Distribution operations	118,267	123,640
Administrative and general	199,857	189,214
Total operating expenses	<u>\$1,152,598</u>	<u>\$1,179,366</u>
Other expenses:		
Depreciation	\$ 37,670	\$ 38,545
Interest expense	2,555	1,156
Industrial development contribution	15,205	11,841
Total other expense	<u>\$ 55,430</u>	<u>\$ 51,542</u>
Increase in net assets	\$ 70,770	\$ 48,430
Net assets beginning of year	<u>3,002,690</u>	<u>2,954,260</u>
Net assets end of year	<u>\$3,073,460</u>	<u>\$3,002,690</u>

## **CAPITAL ASSETS**

The Utility's capital assets include land, buildings, and improvements, equipment, gas line systems, and other infrastructure. Capital assets for the business type activity totaled \$671,733 (net of accumulated depreciation) at December 31, 2006. This is a net decrease of \$(33,848) or 4.80% under last year.

### Capital Assets at Year End

	<u>12-31-06</u>	<u>12-31-05</u>
Land, plants, and mains	\$1,221,429	\$1,219,067
Warehouse	67,461	67,461
Shop equipment	77,337	77,337
Office equipment and fixtures	60,377	59,731
Office improvements	36,084	36,084
Transportation equipment	60,643	60,643
Border station	<u>16,232</u>	<u>16,232</u>
Total	1,539,563	1,536,555

Less: Accumulated Depreciation	<u>867,830</u>	<u>830,974</u>
Net Capital Assets	<u>\$ 671,733</u>	<u>\$ 705,581</u>

Additions for 2006 included:

Service lines and mains	\$ 2,462
New computer	<u>1,361</u>
Total	<u>\$ 3,823</u>

The Utility had depreciation expense of \$37,670 for the year ended December 31, 2006.

## **SHORT-TERM DEBT**

At December 31, 2006, the Utility had \$100,000 in total short term debt outstanding compared to \$150,000 at December 31, 2005. The money was borrowed to purchase storage gas.

## **ECONOMIC FACTORS BEARING ON THE GAS UTILITY'S FUTURE**

The Gas Utility has not made any significant rate changes and does not expect any significant changes in the future. Rates are based upon what the Gas Utility has to pay for the price of gas.

## **CONTACTING THE GAS UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Gas Utility's finances and operating activities. If you have any questions or require additional information please contact Kenneth Spies, Manager, 715 Third Street, Manning, Iowa 51455.

## BASIC FINANCIAL STATEMENTS

MANNING MUNICIPAL GAS DEPARTMENT  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

## ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Unrestricted		
Cash	\$ 123,539	\$ 121,494
Accounts receivable, net of allowance for doubtful accounts	91,716	136,238
Unbilled usage	75,497	91,963
Interest receivable	50,548	37,617
Investments	1,151,305	1,079,042
Inventory	37,088	40,946
Inventory – Gas	98,380	121,245
Prepaid expenses	3,305	3,303
Notes receivable, other municipal departments - current portion	<u>20,000</u>	<u>20,000</u>
Total unrestricted current assets	1,651,378	1,651,848
Restricted assets		
Cash	4,325	5,650
Investments	<u>400,000</u>	<u>400,000</u>
Total restricted current assets	<u>404,325</u>	<u>405,650</u>
Total current assets	2,055,703	2,057,498
Capital assets		
Land, plants and mains	1,221,429	1,219,067
Warehouse	67,461	67,461
Shop equipment	77,337	77,337
Office equipment and fixtures	60,377	59,731
Office improvements	36,084	36,084
Transportation equipment	60,643	60,643
Border station	<u>16,232</u>	<u>16,232</u>
	1,539,563	1,536,555
Less accumulated depreciation	<u>867,830</u>	<u>830,974</u>
Net capital assets	671,733	705,581

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Other Assets		
Notes receivable, other municipal departments - net of current portion	\$ <u>563,000</u>	\$ <u>583,000</u>
Total assets	<u>\$3,290,436</u>	<u>\$3,346,079</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable from unrestricted current liabilities		
Accounts payable	\$ 93,641	\$ 167,638
Consumer credit balances	143	-0-
Sales and use taxes payable	4,187	5,671
Vacation payable	9,246	9,340
Sick leave payable	3,500	3,362
Property taxes payable	595	572
Accrued interest payable	1,339	1,156
Short term note payable	<u>100,000</u>	<u>150,000</u>
Total payable from unrestricted current liabilities	212,651	337,739
Payable from restricted current liabilities		
Customer deposits	<u>4,325</u>	<u>5,650</u>
Total current liabilities	216,976	343,389
Net Assets		
Invested in capital assets, net of related debt	671,733	705,581
Restricted for:		
Customer deposits	4,325	5,650
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	<u>1,997,402</u>	<u>1,891,459</u>
Total net assets	<u>3,073,460</u>	<u>3,002,690</u>
Total liabilities and net assets	<u>\$3,290,436</u>	<u>\$3,346,079</u>

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Sales to customers		
Residential	\$ 615,746	\$ 651,211
Commercial	229,943	246,207
Interruptible	144,208	120,314
Large volume	<u>185,035</u>	<u>164,478</u>
	1,174,932	1,182,210
Merchandise sales, net of cost & customer reimbursement for gas lines	3,087	5,528
Service calls	555	440
Contract labor reimb.	<u>2,279</u>	<u>-0-</u>
Total operating revenue	1,180,853	1,188,178
Operating Expenses		
Purchased gas	834,474	866,512
Distribution expenses		
Manager labor	30,221	29,096
Line labor	74,541	71,748
Chemicals	1,118	1,390
Maintenance materials and supplies	4,254	9,925
Transportation and freight	4,479	4,097
Education	59	691
Miscellaneous	<u>3,595</u>	<u>6,693</u>
Total distribution expenses	118,267	123,640
Administrative and general expenses		
Bad debts	2,609	1,458
Depreciation	37,670	38,545
Dues	10,340	8,218
Group insurance	34,445	33,193
Insurance - general	11,421	11,875
Integrity management	1,156	-0-

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Expenses (continued)		
Administrative and general expenses (continued)		
Advertising	\$ 176	\$ 684
Maintenance - copiers and computers	3,218	3,139
Meetings & travel	229	255
Miscellaneous expense	6,610	5,795
Manager labor	32,795	31,467
Office labor	37,298	35,255
Office supplies and maintenance	3,387	2,802
Official publications	613	667
Payroll taxes	22,842	21,766
Professional services	9,714	9,242
Real estate taxes	612	572
Rebate program/comfort plus homes	2,530	4,650
Trustees	2,995	2,995
Utilities, rent, city assessment	<u>16,867</u>	<u>15,181</u>
Total administrative and general expenses	<u>237,527</u>	<u>227,759</u>
Total operating expenses	<u>1,190,268</u>	<u>1,217,911</u>
Operating Income (Loss)	(9,415)	(29,733)
Non-Operating Revenues (Expenses)		
Interest income	95,225	68,699
Miscellaneous – Northern Rate Refund	2,720	22,461
Contribution - Housing Rehab Project	(3,976)	(1,591)
Contribution - Economic Development	(10,479)	(10,000)
Contribution - Project Trees	(750)	(250)
Interest expense	<u>(2,555)</u>	<u>(1,156)</u>
Total non-operating revenue	<u>80,185</u>	<u>78,163</u>
Change in Net Assets	70,770	48,430
Total Net Assets, Beginning	<u>3,002,690</u>	<u>2,954,260</u>
Total Net Assets, Ending	<u>\$3,073,460</u>	<u>\$3,002,690</u>

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers and users	\$1,235,919	\$1,124,907
Cash received from other revenues	5,921	5,968
Cash paid to suppliers - gas	(888,440)	(855,679)
Cash paid for personal services	(137,896)	(153,270)
Cash paid to employees	<u>(174,811)</u>	<u>(167,152)</u>
Net cash provided (used) by operating activities	40,693	(45,226)
Cash flows from noncapital financing activities:		
Misc. income	2,721	22,461
Change in customer deposits	<u>(1,325)</u>	<u>1,550</u>
Net cash provided (used) by noncapital financing activities	1,396	24,011
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,823)	(3,901)
Interest paid on notes	(2,372)	-0-
Proceeds from short-term notes	150,000	150,000
Repayment of short-term debt	<u>(200,000)</u>	<u>-0-</u>
Net cash provided (used) by capital and related financing activities	(56,195)	146,099
Cash flows from investing activities:		
Interest on investments	82,294	60,028
Industrial development contribution	(15,205)	(11,842)
Principal received on notes	<u>20,000</u>	<u>20,000</u>
Net cash provided (used) by investing activities	<u>87,089</u>	<u>68,186</u>
Net increase (decrease) in cash and cash equivalents	72,983	193,070
Cash and cash equivalents beginning of year	<u>1,606,186</u>	<u>1,413,116</u>
Cash and cash equivalents end of year	<u>\$1,679,169</u>	<u>\$1,606,186</u>

See notes to financial statements.



MANNING MUNICIPAL GAS DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

<b>Reconciliation of operating income to net cash provided by operating activities:</b>	<u>2006</u>	<u>2005</u>
Operating income (loss)	\$ (9,415)	\$ (29,733)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	37,670	38,545
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	60,988	(57,304)
(Increase) decrease in inventories	26,723	(18,716)
(Increase) decrease in prepaid expenses	(2)	(161)
Increase (decrease) in accounts payable	(73,997)	19,595
Increase (decrease) in sales & use tax payable	(1,484)	2,146
Increase (decrease) in salaries payable	44	414
Increase (decrease) in property taxes payable	23	(12)
Increase (decrease) in consumer credit balances	143	-0-
Net cash provided by operating activities	<u>\$ 40,693</u>	<u>\$ (45,226)</u>

**Reconciliation of cash and cash equivalents at year end to specific assets included on the Balance Sheet:**

Current assets:		
Cash and pooled investments	\$1,274,844	\$1,200,536
Restricted assets:		
Cash and pooled investments:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	4,325	5,650
Cash and cash equivalents end of year	<u>\$1,679,169</u>	<u>\$1,606,186</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Gas Department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) The ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board criteria.

The financial statements include only those funds of the Gas Utility and are not intended to present all funds of the City of Manning, Iowa.

Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation.

Nature of Business

The Manning Municipal Gas Department is a municipal utility. The Utility distributes gas to the residents and businesses of Manning, an agricultural community. The Gas Department expanded its services in 1992 to include the City of Templeton, with the first hookups occurring in the fall of 1992. Completion of the Templeton Project took place in 1993. The Gas Department again expanded its services in the fall of 1997 to include the City of Aspinwall.

The Utility's revenues are dependent upon the economic status of its customers. Collection policies have been established.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Gas Utility are charges to customers for sales and services. Operating expenses for the Gas Utility include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Gas Utility's accounting records are maintained on the cash basis. However, for financial reporting purposes, the accounting records have been adjusted to the accrual method which recognizes income when earned and expenses when incurred.

The Balance Sheet presents the Gas Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are externally imposed or imposed by law through constitutional provisions or enabling legislation.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted with that of the City of Manning following required public notice and hearing. The budgetary comparison and related disclosures are reported as part of the basic financial statements rather than as Required Supplementary Information.

Cash, Investments, and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposits. For purposes of the Statement of Cash Flows, the Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

Accounts Receivable

Accounts receivable are presented at their net realizable values. Allowance for doubtful accounts is \$1,258 at December 31, 2006 and \$805 at December 31, 2005.

The Utility employees read the customer meters every month. Manning customers are billed on the 1st of each month and Templeton, Aspinwall, and AGP are billed on the 13th of each month. The Utility follows the Commerce Commission rules when it comes to collection procedures. Normally a customer has 20 days to pay their bill, unless they are on the budget plan and then they have 30 days. If the customer is late with their payment, then the Utility sends out a delinquent notice. No surcharge or interest expense is added to the bill.

If it is after April 1st and before November 1st, the gas line could be shut off to a past due customer. Otherwise, the Utility must follow stricter procedures before a customer could be disconnected.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

Unbilled Usage

The Gas Department estimates unbilled usage at the end of each accounting period by prorating the total billing based on the number of days still in the audit year versus the total number of days in the billing period. The unbilled usage was \$75,497 at December 31, 2006 and \$91,963 at December 31, 2005.

Inventory

Materials and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

Restricted Assets

The Gas Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$176 and \$684 for the years ended December 31, 2006 and 2005, respectively.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. A half year's depreciation is recorded in the year the asset is placed in service and a half year's depreciation is taken in the year the asset is retired. Depreciation is computed over the following useful lives:

Plant and Mains	30 - 40 years
Office and Shop Equipment	5 - 10 years
Vehicles	5 years
Warehouse and Office Improv.	20 years
Border Station - Odorizer	20 years

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are charged to property, plant and equipment accounts.

Customer Deposits

Meter deposits are collected from new customers before they are hooked up to the gas line. Customers in good standing will get a full refund of their deposit after six months.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

Operating Revenues

Revenues are based on billing rates which are applied to customers' consumption of gas. Utility employees read the customer's gas meters on a monthly basis. Western Consulting Inc. calculates the rate to charge per MCF on a monthly basis as well.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

NOTE B DEPOSITS AND INVESTMENTS

The Utility's deposits at December 31, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.



MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE B DEPOSITS AND INVESTMENTS (cont'd.)

The Utility's cash and investments at December 31, 2006, are as follows:

	<u>Cash</u>	<u>Certificates Of Deposit</u>
Unrestricted	\$ 123,539	\$1,151,305
Restricted	<u>4,325</u>	<u>400,000</u>
	<u>\$ 127,864</u>	<u>\$1,551,305</u>

NOTE C RESTRICTED ASSETS

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

	<u>Cash</u>		<u>Investments</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Customer Deposits	\$ 4,325	\$ 5,650	\$ -0-	\$ -0-
Depreciation Reserve	-0-	-0-	300,000	300,000
Capital Improvement Reserve	<u>-0-</u>	<u>-0-</u>	<u>100,000</u>	<u>100,000</u>
	<u>\$ 4,325</u>	<u>\$ 5,650</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE D CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 is summarized by the following classification:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Plants and Mains	1,216,567	2,462	(100)	1,218,929
Warehouse	67,461	-	-	67,461
Shop Equipment	77,337	-	-	77,337
Office Equipment & Fixtures	59,731	1,360	(714)	60,377
Office Improvements	36,084	-	-	36,084
Transportation Equipment	60,643	-	-	60,643
Border Station	<u>16,232</u>	<u>-</u>	<u>-</u>	<u>16,232</u>
Total Capital Assets	1,536,555	3,822	(814)	1,539,563
Less: Accumulated Depreciation	<u>830,974</u>	<u>37,670</u>	<u>(814)</u>	<u>867,830</u>
Capital assets, net	<u>\$ 705,581</u>	<u>(33,848)</u>	<u>-0-</u>	<u>671,733</u>
Depreciation charged to operations				<u>\$ 37,670</u>

NOTE E RELATED PARTY TRANSACTIONS

2006

2005

Unsecured note receivable from the City of Manning, due in annual installments until principal is paid, at a rate adjusted annually on the anniversary date of the note to an amount which is equal to 1% more than the maximum rate of interest being paid by Bank of the West of Manning, Iowa, on certificates of deposits which were issued for maturities of one year. Originally borrowed for the purpose of financing the construction of a new municipal water treatment plant. Final payment is due in February, 2010.

\$ 83,000

\$ 103,000

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE E RELATED PARTY TRANSACTIONS (cont'd.)	<u>2006</u>	<u>2005</u>
Note receivable from the Manning Municipal Communications and Television System Utility to be used for the broadband communications system. The interest rate shall be adjusted annually on the anniversary date of the note to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. No schedule has been drawn up for the repayment on principal.	500,000	500,000
	<u>583,000</u>	<u>603,000</u>
Less: Current Portion	<u>20,000</u>	<u>20,000</u>
	<u>\$ 563,000</u>	<u>\$ 583,000</u>

The Manning Municipal Gas Department paid businesses owned by employees or officials for the following:

	<u>2006</u>	<u>2005</u>
Truck repairs	\$ 340	\$ 417
Supplies	493	396
Fuel & truck repairs	2,413	2,043
Publications/Adv.	-	1,174
Maint. materials	531	176
	<u>\$ 3,776</u>	<u>\$ 4,206</u>

The Utility leases an area of City Hall from the City of Manning through an oral lease agreement. Rent expense charged to operations on this facility aggregated \$2,400 and \$2,400 for the years 2006 and 2005, respectively. The City of Manning also charged the Manning Municipal Gas Department a City assessment of \$3,600 in 2006 and \$3,600 in 2005.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE F SHORT TERM NOTE PAYABLE

A summary of changes in short-term debt for the year ended December 31, 2006 is as follows:

	Templeton <u>Savings Bank</u>
Balance, beginning	\$ 150,000
Advances	150,000
Payments	<u>(200,000)</u>
Balance, ending	<u>\$ 100,000</u>

NOTE G COMPENSATED ABSENCES

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current level of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of work.

NOTE H PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE H PENSION AND RETIREMENT BENEFITS (cont'd.)

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended December 31, 2006, and 2005 were \$9,643, and \$9,164 respectively, equal to the required contributions for each year.

NOTE I PURCHASE COMMITMENT

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Omaha whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 31, 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

NOTE J LONG-TERM TRANSPORTATION AGREEMENT

Manning Municipal Gas Department entered into a long-term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

NOTE K COMPARISON OF DISBURSEMENTS WITH BUDGET

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Gas Utility for the period July 1, 2005 to June 30, 2006.

Therefore, the following is a schedule comparing the business type activity, which includes the Gas Fund's budget and actual disbursements using the cash basis of accounting for the year July 1, 2005 to June 30, 2006:

MANNING MUNICIPAL GAS DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

NOTE K COMPARISON OF DISBURSEMENTS WITH BUDGET (cont'd.)

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u>
Business-type activity	<u>\$1,202,700</u>	<u>\$1,201,886</u>	<u>\$ 814</u>

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2006 did not exceed the final statutory budget.

NOTE L RISK MANAGEMENT

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

## SUPPLEMENTAL INFORMATION

SCHEDULE 1MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 2006

	Balance December 31, <u>2005</u>	<u>Purchases</u>	<u>Redeemed</u>	Balance December 31, <u>2006</u>
<u>Certificates of Deposit:</u>				
Operations and maintenance	\$ 189,323	\$ 8,336	\$ -0-	\$ 197,659
Capital improvements	101,892	462	-0-	102,354
Depreciation Fund	499,208	19,037	-0-	518,245
Contingency Fund	<u>688,619</u>	<u>87,590</u>	<u>(43,162)</u>	<u>733,047</u>
	<u>\$1,479,042</u>	<u>\$ 115,425</u>	<u>\$ (43,162)</u>	<u>\$1,551,305</u>
 Interest Earned on:				
Checking				\$ 430
Certificates of Deposit				63,079
Customer deposits				76
Savings-IPAIT				663
Water treatment plant loan				4,882
Communication system loan				<u>26,095</u>
				<u>\$ 95,225</u>



MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF TIME CERTIFICATES OF DEPOSIT  
DECEMBER 31, 2006

	<u>Certificate Number</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
CAPITAL IMPROVEMENT FUND:			
Bank of the West, Manning	865399	8-17-06	5.16%
	865332	3-04-06	4.96%
DEPRECIATION FUND:			
First National Bank, Manning	3487	4-9-07	3.80%
Templeton Savings Bank, Templeton	30242	4-25-08	5.58%
	63273	7-16-07	5.25%
CONTINGENCY FUND:			
First National Bank, Manning	3527	5-18-07	4.75%
	424	3-17-07	4.50%
	3486	4-19-07	3.80%
	3688	4-20-08	5.15%
	3700	5-07-08	5.15%
	3708	5-16-07	5.00%
Templeton Savings Bank, Templeton	23525	6-14-08	5.30%
	63258	6-19-07	5.25%
	63242	11-12-07	5.35%
	62735	5-04-07	4.75%
	62746	5-20-07	4.75%
	62790	8-01-07	5.25%
	62939	3-20-07	4.80%
Bank of the West, Manning	864897	5-09-07	5.09%
	850037	12-13-07	4.90%
	865787	9-27-07	5.11%
	865126	6-16-08	5.03%
	865381	8-18-07	5.16%
OPERATIONS AND MAINTENANCE FUND:			
Bank of the West, Manning	865589	7-06-07	5.41%
	865746	5-09-07	5.22%

Total Time Certificates of Deposit

SCHEDULE 2

Amount  
December 31, 2006

\$ 52,354  
50,000  
\$ 102,354

197,471

288,291  
32,483      518,245

20,570  
29,559  
45,139  
20,000  
21,528  
20,000

23,800  
22,225  
22,206  
16,891  
46,968  
25,372  
11,425

107,486  
23,610  
21,621  
31,828  
222,819      733,047

178,183  
19,476      197,659

\$1,551,305

# **HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.**

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## **Certified Public Accountants**

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**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

April 9, 2007

To the Board of Trustees of the  
Manning Municipal Gas Department:

We have audited the accompanying financial statements of the Manning Municipal Gas Department as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated April 9, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manning Municipal Gas Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Manning Municipal Gas Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the board of trustees, management and employees of Manning Municipal Gas Department, and other parties to whom the Manning Municipal Gas Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

April 9, 2007  
Manning Municipal Gas Department  
Page Three

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Manning Municipal Gas Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Heithoff, Hansen, Muhlbauer & Co., P.C.*

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.  
Certified Public Accountants

MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

**Part I: Summary of the Independent Auditors' Results**

- a) An unqualified opinion was issued on the financial statements.
- b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-06 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Gas Department's financial statements. We noted during our audit that a limited number of people are responsible for most of the accounting and financial duties. As a result, an adequate segregation of duties are, for all practical purposes, missing in your Utility.

Recommendation - We recognize that your Utility is not large enough to make the employment of additional people for the purpose of segregation of duties practical from a financial standpoint. Thus in an attempt to achieve better internal control, officials should provide a segregation and rotation of duties whenever possible.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with a small staff.

Conclusion - Response acknowledged.

MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

**Part III: Other Findings Related to Required Statutory Reporting:**

III-A-06 Certified Budget

The Utility's operating budget is part of the certified budget of the City of Manning and is subject to the approval of the City Council. The Utility budgets on the cash basis on the same fiscal year as the City which is from July 1, 2005 to June 30, 2006. The disbursements during the fiscal year ended June 30, 2006, did not exceed the amounts budgeted by the Utility.

III-B-06 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-06 Travel Expense

No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted. No travel advances to Utility officials or employees were noted.

III-D-06 Business Transactions

Business transactions between the Utility and Utility officials and/or employees are as follows:

<u>Name, Title and Business Relationship</u>	<u>Transaction Description</u>	<u>Amount</u>
Allen Rix, Trustee, Owner of Rix Amoco	Gasoline & repairs	<u>\$ 2,413</u>
Kenneth Spies, Manager, Owner of Spies Fur	Jackets & clothing	<u>\$ 257</u>
Mike Warner, Employee, Owner of Warner Welding	Maintenance materials	<u>\$ 531</u>
Ron Soll, Trustee, Shareholder of Soll's Service, Inc.	Time clock and materials	<u>\$ 236</u>

MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

**Part III: Other Findings Related to Required Statutory Reporting:**

III-D-06 Business Transactions (continued)

Bob Ehlers, Trustee, Shareholder of Manning Motors, Inc.	Truck Repairs	<u>\$ 340</u>
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In accordance with Chapter 362.5 (11) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions were less than \$2,500 with each individual during the fiscal year.

III-E-06 Bond Coverage

Surety bond coverage of Utility's officials and employees is in accordance with the minimum statutory provisions required. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-06 Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not. Minutes of the Utility proceedings were all properly and timely published. Also, the Utility did publish annual gross salaries for 2006 as in accordance with an Attorney General's opinion dated April 12, 1978.

III-G-06 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

III-H-06 Gas Cards

Manning Municipal Gas Department has issued gas cards to the employees to fill up their vehicles at Aspinwall Cooperative and Rix Amoco. There is no control over these cards and nothing to prevent an employee from filling up their personal vehicles.

Recommendation – The Utility should adopt a formal written policy regulating the use of gas cards. The policy should address who is authorized to use the gas cards and require users to document each time the gas card is used. A notebook should be kept in each business vehicle. Each time an employee puts gas into that vehicle they should document the dollar amount, date, number of gallons put in, and the odometer reading on that date. A copy of this information



MANNING MUNICIPAL GAS DEPARTMENT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

**Part III: Other Findings Related to Required Statutory Reporting:**

III-H-06    Gas Cards (continued)

should then be turned in at the end of each month. The Administrative Assistant should then reconcile the vehicle logs with bills received from Aspinwall Coop and Rix Amoco for each respective month.

Response – We will establish a written policy which sets forth the above requirements concerning the use of Utility gas cards.

Conclusion – Response accepted.

III-I-06    Interest Accrued

The interest income accrued up through December 31, 2005 was not received until September 2006 on the Note Receivable from MMCTSU. The Gas Department can not accrue interest on unpaid interest on this note, so the \$18,562 of unpaid interest was not earning any interest for nearly a nine month time period.

Recommendation – A written bill for interest expense should be submitted to MMCTSU on a timely basis. Management should discuss the matter with MMCTSU.

Response – We will do this.

Conclusion – Response accepted.